

**EXHIBIT A**

**SENSITIVE – CONFIDENTIAL – SUBJECT TO FRE 408**

**FOMB PROPOSED TERMS FOR RESTRUCTURING OF RETIREE OBLIGATIONS**

*In re Commonwealth of Puerto Rico, Title III Case No. 17 BK 3283-LTS*

*April 27, 2019*

THIS SUMMARY OF TERMS IS NOT AN OFFER WITH RESPECT TO ANY SECURITIES OR A SOLICITATION OF ACCEPTANCES OF A PLAN OF ADJUSTMENT FOR PURPOSES OF PROMESA, SECTIONS 1125 AND 1126 OF THE BANKRUPTCY CODE OR OTHERWISE. ANY SUCH OFFER OR SOLICITATION WILL COMPLY WITH ALL APPLICABLE SECURITIES LAWS AND/OR PROVISIONS OF PROMESA AND THE BANKRUPTCY CODE. NOTHING CONTAINED IN THIS SUMMARY OF TERMS SHALL BE AN ADMISSION OF FACT OR LIABILITY OR, UNTIL THE OCCURRENCE OF THE AGREEMENT EFFECTIVE DATE ON THE TERMS DESCRIBED HEREIN, DEEMED BINDING ON ANY OF THE PARTIES HERETO.

This is a summary of proposed indicative terms for a restructuring of the outstanding retiree obligations for the Commonwealth of Puerto Rico. This summary is for settlement purposes only and is not a commitment by any party to enter into a transaction. The agreement of the parties shall be subject to execution and delivery of definitive documentation. If executed, the terms of such definitive documentation shall control.

This summary and related discussions are confidential and entitled to the protection of Rule 408 of the Federal Rules of Evidence and any other applicable statutes or doctrines protecting the use or disclosure of confidential information or settlement discussions. The proposed terms remain subject to further negotiation and analysis, and nothing herein shall be an admission of fact or any liability, a waiver of any right or claim, or be deemed binding on any party.

Definitions	
<b>Retirees</b>	All current, former, active, inactive, and disabled employees (and their beneficiaries) who, as of May 3, 2017, held an accrued pension benefit (or were beneficiaries thereof) as participants of one of the following: <ul style="list-style-type: none"><li>• Employees Retirement System (ERS)</li><li>• Teachers Retirement System (TRS)</li><li>• Judiciary Retirement System (JRS);</li></ul> except for active employees who are participants in the System 2000 program and whose accrued pension benefits are subject to a separate agreement reached on their behalf by AFSCME with the FOMB on behalf of the Commonwealth, to the extent applicable.
<b>Appropriation and Payment of Residual Benefits</b>	The residual Total Monthly Retirement Benefit due to each Retiree after the terms herein are met will be appropriated and paid on a Pay As You Go (“PayGo”) basis each year by the Commonwealth until all such benefits owed to each Retiree have been paid.
<b>Monthly Base Pension</b>	Monthly Base Pension is the monthly pension payment made to a Retiree, excluding all other benefits, such as the Christmas Bonus, Summer Bonus, Medicine Bonus, and Medical Insurance benefit.
<b>Total Monthly Retirement Benefit</b>	The Total Monthly Retirement Benefit that will be measured against the Threshold for the purposes of applying cuts pursuant to the Total Cut Formula is calculated by adding together the Monthly Base Pension benefit, plus the annual Christmas Bonus (if any) divided by 12 (the “Monthly Christmas

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	Bonus”), plus the annual Summer Bonus (if any) divided by 12 (the “Monthly Summer Bonus”), plus the annual Medicine Bonus (if any) divided by 12 (the “Monthly Medicine Bonus”), but excluding any monthly Medical Insurance benefit.
<b>Benefit Reduction Commencement Date</b>	The date on which the reduction/cut described in the Total Cut Formula will first be applied to benefits paid by the Commonwealth.
<b>PayGo Pension Board</b>	The independent pension oversight entity to be created pursuant to the Commonwealth Plan of Adjustment in a form acceptable to the FOMB, Retirees, and the Government, to monitor PayGo administration for the benefit of Retirees from and after confirmation of the Plan of Adjustment.

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<b>Timing</b>	
<b>Pension Benefits Date</b>	<p>Accrued pension benefits earned by Retirees before May 4, 2017 are subject to a reduction/cut in the amount described in the Total Cut Formula.</p> <p>Accrued pension benefits earned by Retirees on or after May 4, 2017 are not subject to the reduction in the Total Cut Formula. The data set used to calculate the reduction in pension benefits required is based on the July 1, 2015 retiree dataset provided by the ERS, TRS, and JRS which is the latest dataset currently available. If a new dataset from 2016 or 2017 becomes available, the values will be updated accordingly.</p>
<b>Implementation</b>	<p>The Benefit Reduction Commencement Date shall be the later of July 1, 2020 or the first July 1 date that follows the effective date of a Plan of Adjustment for the Commonwealth; provided, however, that if the period between said effective date and subsequent July 1 date is less than 180 days, then the Benefit Reduction Commencement Date shall be the first day of the first calendar month that is at least 180 days after said effective date.</p>

<b>Provisions of the Proposal</b>	
<b>Cut Percentage</b>	Up to 8.5% of Total Monthly Retirement Benefit, subject to the Total Cut Formula.
<b>Cut Type</b>	Flat; same Cut Percentage applied to the Monthly Base Pension benefit for all participants, subject to Threshold.
<b>Threshold Over Which Cuts Apply (the “Threshold”)</b>	\$1,200 per month
<b>Indexing of Threshold and Annual Benefit Recalculation</b>	<p>No indexing for future changes in Federal Poverty Level.</p> <p>Additionally, no annual benefit recalculation once Cut Percentage is applied.</p>
<b>Adjustment for Social Security</b>	Excluded from calculation.
<b>Medical Insurance</b>	<p>Monthly Medical Insurance benefit is excluded from the calculation of the Total Monthly Retirement Benefit and is not subject to the Total Cut Formula. The Monthly Medical Insurance benefit shall vest for the benefit of Retirees and shall be subject to any plan of adjustment injunctions or other provisions protecting the benefits provided to Retirees from elimination, modification or alteration.</p>



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<b>Total Cut Formula</b>	<p>The reduction in Total Monthly Retirement Benefit shall be calculated as follows (the “Monthly Benefit Reduction”):</p> <p><i>Step 1:</i> Reduce the Monthly Christmas Bonus until the Threshold is reached or the Cut Percentage is reached or the Monthly Christmas Bonus is entirely eliminated, whichever occurs first as the Total Monthly Retirement Benefit is reduced.</p> <p><i>Step 2:</i> If the Retiree’s Total Monthly Retirement Benefit is still above the Threshold and the Cut Percentage has not been reached after elimination of the Monthly Christmas Bonus, reduce the Monthly Summer Bonus until the Threshold is reached or the Cut Percentage is reached or the Summer Bonus is entirely eliminated, whichever occurs first as the Total Monthly Retirement Benefit is reduced.</p> <p><i>Step 3:</i> If the Retiree’s Total Monthly Retirement Benefit is still above the Threshold and the Cut Percentage has not been reached after elimination of the Monthly Christmas Bonus and Monthly Summer Bonus, reduce the Monthly Medicine Bonus until the Threshold is reached or the Cut Percentage is reached or the Monthly Medicine Bonus is entirely eliminated, whichever occurs first as the Total Monthly Retirement Benefit is reduced.</p> <p><i>Step 4:</i> If the Retiree’s Total Monthly Retirement Benefit is still above the Threshold and the Cut Percentage has not been reached after elimination of the Monthly Christmas Bonus, Monthly Summer Bonus, and Monthly Medicine Bonus, reduce the Monthly Base Pension until the Cut Percentage is reached; provided, however, that the application of the remaining Cut Percentage to the Monthly Base Pension shall not reduce the Total Monthly Retirement Benefit below the Threshold.</p> <p>Under no circumstances shall the Cut Percentage apply in such a way that an individual Retiree’s Total Monthly Retirement Benefit would be cut below the Threshold. If a Retiree’s Total Monthly Retirement Benefit is below the Threshold, the Monthly Benefit Reduction is zero.</p>
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<b>Benefit Restoration / Upside Participation</b>	<p>Retirees who are subject to a Monthly Benefit Reduction based on the Total Cut Formula above will be eligible for a partial or total restoration of their Monthly Benefit Reduction for any given fiscal year (the “Benefit Restoration”).</p> <p>Excess Cash Surplus is defined as actual cash surplus above and beyond the projected Fiscal Plan Surplus contained in the Certified Fiscal Plan in effect as of the effective date for the Plan of Adjustment for the Commonwealth.<sup>2</sup></p> <p>Benefit Restoration will occur if, in any particular post-confirmation fiscal year, there is Excess Cash Surplus, as provided below.</p> <p>If the Excess Cash Surplus is lower than \$100 million, no amounts will be distributed.</p> <p>If the Excess Cash Surplus is \$100 million or higher, 10 percent of the Excess Cash Surplus will be allocated to Benefit Restoration and paid out to each Retiree on or before October 1 of the following fiscal year. Allocation of Benefit Restoration to each Retiree shall be pro-rata based on the amount of total cuts experienced by each Retiree.</p> <p>Benefit Restoration for any Retiree will be capped at the Monthly Benefit Reduction multiplied by 12 for such Retiree.</p> <p>The final year of the Benefit Restoration program will be FY2033, with any Benefit Restoration payments relative to that fiscal year due by October 1, 2033.</p>
<b>Pension Reserve Fund</b>	<p>On the effective date of a confirmed Plan of Adjustment for the Commonwealth, the Commonwealth will establish a Pension Reserve Fund. Such Pension Reserve Fund will be held in trust for the sole benefit of the Retirees, and managed by a third-party investment adviser mutually agreeable to the FOMB, the Government, and the PayGo Pension Board, selected via RFP. The funding of the administrative cost of the investment adviser will come from the Pension Reserve Fund.</p> <p>The Plan of Adjustment for the Commonwealth will provide that the Commonwealth shall make annual contributions to the Pension Reserve Fund from the Commonwealth General Fund until FY2027 in an amount no less than \$175 million per year; provided further that for any fiscal year ending post-effective date contained in the Certified Fiscal Plan in effect as of the effective date for the Plan of Adjustment for the Commonwealth in which the projected Fiscal Plan Surplus is at least \$1.750 billion, the Commonwealth shall make a contribution to the Pension Reserve Fund from the Commonwealth General Fund in an amount equal to 25% of the projected Fiscal Plan Surplus that year. The annual contribution shall be made by October 1 following the end of each fiscal year. Furthermore, the</p>

<sup>2</sup> For the avoidance of doubt, Fiscal Plan Surplus shall refer to the “Surplus/(Deficit) Post Measures (excl. Debt Payments)” line item. For example, with respect to the October 2018 Fiscal Plan, that refers to the “Revised FP Presentation – 40yr” tab in the fiscal plan model provided in support of the October 2018 Fiscal Plan on February 6, 2019. (20181023\_Model Commonwealth Fiscal Plan\_vCERTIFIED\_pensions\_v6.xlsx).



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	<p>Commonwealth shall make a one-time contribution on the effective date for the Plan of Adjustment to the Pension Reserve Fund in the amount of \$5 million to cover the upfront administrative fees, costs, and expenses of the PayGo Pension Board.</p> <p>Withdrawals from the Pension Reserve Fund, including investment returns, will be made in amounts to be determined by the PayGo Pension Board, in consultation with the Commonwealth, to reduce the Commonwealth cash outlays from the General Fund for annual PayGo expense for Retirees in years in which there is projected to be a budget deficit. Any withdrawals from the Pension Reserve Fund will require approval of the PayGo Pension Board and shall only be used by the Commonwealth for the payment of PayGo.</p>
<b>Miscellaneous</b>	<p>Subject to further articulation, and without limiting the preamble, definitive documentation shall reflect the following provisions for incorporation into a confirmed Plan of Adjustment for the Commonwealth:</p> <ul style="list-style-type: none"><li>(a) To the maximum extent allowed by law, and the FOMB having consented on behalf of itself and the Commonwealth for all purposes including PROMESA section 305, all payment and other obligations owed to the Retirees under the Plan of Adjustment, including the Commonwealth's PayGo obligations and all components of the residual Total Monthly Retirement Benefit after application of the Total Cut Formula, shall remain, until satisfied, enforceable by any and each of the FOMB, the PayGo Pension Board, and any affected Retirees, and the Plan of Adjustment shall not be changed by the Commonwealth (i) without the consent of the FOMB (if still extant at the time of the proposed change), the PayGo Pension Board, and Retirees still receiving benefits pursuant to the Plan of Adjustment at the time of the proposed change, or (ii) pursuant to a new Title III case and confirmed and effective Plan of Adjustment;</li><li>(b) The establishment of the PayGo Pension Board in a form acceptable to the FOMB, Retirees, and Government to monitor PayGo administration upon confirmation of a Plan of Adjustment for the benefit of Retirees. Said Board shall receive funding from the Pension Benefit Reserve for (i) administrative costs, including fees and payroll for Board members and staff; (ii) reasonable fees and expenses for an annual audit to verify the Commonwealth's financial statements, including, without limitation, the calculation of the Excess Cash Surplus for Benefit Restoration purposes and the Fiscal Plan Surplus for Pension Reserve Fund purposes; (iii) fees and expenses of prosecuting any mandamus or other litigation by the Board to enforce Retirees' rights under the Plan of Adjustment (with standing explicitly granted to the Board under the Plan) or to defend against any suit; and (iv) indemnification and related fees and expenses pursuant to appropriate indemnification and hold harmless provisions protecting the Board members.</li></ul>



**Appendix  
Illustrative Calculations<sup>1</sup>**

		<b>Total Pension Value</b>	<b>Christmas bonus <sup>2</sup></b>	<b>Medicine and/or Summer bonus <sup>3</sup></b>	<b>Monthly Base Pension</b>	<b>Monthly Medical Insurance</b>	<b>Comment</b>
A	Current	\$ 875	\$ 17	\$ 8	\$ 850	\$ 0	
	Reduction	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	No cut since benefit
	After Cut	\$ 875	\$ 17	\$ 8	\$ 850	\$ 0	below \$1,200
B	Current	\$1,625	\$ 17	\$ 8	\$1,500	\$100	
	Reduction	<u>130</u>	<u>17</u>	<u>8</u>	<u>105</u>	<u>0</u>	Total Monthly Retirement
	After Cut	\$1,495	\$ 0	\$ 0	\$1,395	\$100	Benefit cut by 8.5%, including full elimination of bonuses, since remaining amount after cut is still above \$1,200
C	Current	\$1,235	\$ 17	\$ 8	\$1,210	\$ 0	All bonuses eliminated but
	Reduction	<u>35</u>	<u>17</u>	<u>8</u>	<u>10</u>	<u>0</u>	
	After Cut	\$1,200	\$ 0	\$ 0	\$1,200	\$ 0	Total Monthly Retirement Benefit cut by less than 8.5%to remain above \$1,200
D	Current	\$1,205	\$ 17	\$ 8	\$1,180	\$ 0	
	Reduction	<u>5</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>	\$5 of Christmas
	After Cut	\$1,200	\$ 12	\$ 8	\$1,180	\$ 0	Bonus cut to remain above \$1,200
		Maximum 8.5% cut to Total Monthly Retirement Benefit so long as remaining amount after cut is still above \$1,200	Cut if total still above \$1,200	Cut if total still above \$1,200	Flat 8.5% cut on Total Monthly Retirement Benefit less bonuses already eliminated so long as total is still above \$1,200	Excluded from cut calculations	

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<sup>1</sup> Examples are illustrative for all systems and intended to demonstrate the methodology described in the Summary of Terms. Bonuses that are available to individual participants depend on various factors such as the date of retirement and the retirement system for the participant's benefit.

<sup>2</sup> Monthly equivalent of \$200 annually.

<sup>3</sup> Monthly equivalent of \$100 annually. Summer bonus, if applicable, is cut before Medicine bonus in accordance with the Total Cut Formula